

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2018-1

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S
INFORMATION REQUEST NO. 3**
(October 23, 2017)

The Postal Service hereby files its response to Chairman's Information Request (CHIR) No. 3, issued on October 18, 2017. The question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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1. Please confirm that the calculated revenue forgone [presented in Library Reference USPS-LR-R2018-1/2, October 6, 2017, Excel file "Mobile Shopping.xlsx," tab "Mobile Shopping Promotion;" Excel file "Emerging Tech.xlsx," tab "Emerging Tech Promotion;" and Excel file "Tactile Sensory.xlsx," tab "Tactile Sensory Promotion] for each product category is adjusted in each of these tabs.

- a. If confirmed, please provide the rationale for each adjustment.
- b. If confirmed, please explain if these adjustments are consistent with the treatment of revenue forgone for First-Class Mail promotions in Library Reference USPS-LR-R2018-1/1, filed October 6, 2017.
- c. If not confirmed, please explain.

RESPONSE:

Confirmed.

- a. The Postal Service adjusted the amounts in question to reflect the actual revenue forgone by each promotion, as reported in the Business Customer Gateway data system. The Postal Service has not made this adjustment in the past, and did so here because using the reported revenue forgone amounts is more accurate than estimating the amounts based on reported volumes. That is because the promotional volume data from the Business Customer Gateway do not provide a breakdown by individual price cell.

Therefore, to calculate the revenue amounts based on reported volumes, the volumes are distributed to price cells assuming the average distribution in the billing determinants, which can be quite different from the actual volume distribution for the promotion. After the volumes are distributed, the revenue from the promotional volumes is calculated using the current and proposed

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promotion and non-promotion prices. Then the resulting promotion revenue is subtracted from the non-promotion revenue to determine the revenue forgone.

In past cases, promotions that ended one calendar year generally were continued in the next calendar year, with very similar, or equal, lost and gained cap space. In other words, the amount of revenue gained from the close out of the promotions in one calendar year nearly equaled the amount of revenue forgone as a result of offering new promotions in the next calendar year. During the preparation of the current docket, which reflects only the close out of the calendar year 2017 promotions, the inequality of the actual and calculated revenues became clear, and the calculated forgone revenue was adjusted to match the actual forgone revenue for the USPS Marketing Mail promotions.¹

The Postal Service notes a shortcoming of its adjustment for the Mobile Shopping promotion. Because the calendar year 2017 promotion is ongoing, the adjustment relies on results from the calendar year 2016 promotion. The actual revenue forgone, therefore, is based on the Docket No. R2015-4 rates, rather than the Docket No. R2017-1 rates that apply during the calendar year 2017 promotion, and should have been adjusted upward to reflect the higher Docket No. R2017-1 rates.

¹ See the tabs identified in the question. Each adjustment factor is calculated in the last three rows of the tab, and then applied in the top portion of the tab to adjust the calculated revenues. Effectively, this provides the same result as adjusting all of the estimated cell-by-cell volumes by the same adjustment factor, to correct for the averaging in the distribution process. Thus, use of the adjustment factors is

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- b. First-Class Mail was prepared separately, and followed the historical practice of calculating revenue forgone using the volumes reported in the Business Customer Gateway.² The Postal Service is prepared to make these files consistent across the two classes, should the Commission deem one approach preferable to the other.³
- c. Not applicable.

consistent with the Commission's rules for computing the percentage change in rates. 39 CFR § 3010.23(a)(2), (b).

² The differences between calculated and actual revenue for First-Class Mail were much smaller than for USPS Marketing Mail, and so did not attract attention.

³ If the Commission adopts the approach of using reported revenue forgone amounts, then two First-Class Mail promotions would need to be revised: Emerging Tech and Color Transpromo. The Earned Value promotion does not provide a percentage discount, so it does not require any changes from historical practice to match actual revenue forgone.